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10 DEC 1960

card

Admiral Arleigh Burke
Chief of Naval Operations
United States Navy
Washington 25, D. C.

Dear Arleigh:

I have read with considerable interest your letter of 19 November and its attached study on the growing threat from Soviet oil trade with Free World nations.

Some light on this matter is shed by a new national estimate which is almost completed, NIE 30-60 on "Middle East Oil" which analyzes inter alia Soviet operations in this field.

In general we try to keep close tabs on Soviet capabilities and intentions with respect to oil exports n and I would be happy to put our people in touch with your experts on this matter, as a preliminary to any action which might be desirable.

Sincerely,

Allen W. Dulles
Director

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CHIEF OF NAVAL OPERATIONS

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19 November 1960

Dear Allen:

For some time now I have been noting with concern the increase in Soviet commerce with the free and uncommitted nations of the world. Recent actions of the Soviets to sell crude oil to India at 25% below the posted Persian Gulf price and to barter 100,000 barrels of crude oil per day to Italy in exchange for steel pipe and rubber are examples of the many economic moves which are being used by the Soviets in the Cold War which we are now waging. Unless the United States and the other western powers can thwart such moves, the semblance of Soviet ability under communism to produce and sell more cheaply than we can under the capitalistic system may have very serious consequences in our struggle to convince the peoples of the world that democratic principles and free enterprise are better and more efficient than dictatorship and communism.

I have therefore had the enclosed brief study prepared to show the extent to which the Soviets have progressed in their efforts to disrupt and capture an increasing share of the international petroleum market. It appears that the progress made by the Soviets in this field is sufficient to justify my initial concern. I suggest that we are faced with a problem of sufficient magnitude to warrant a thorough study by the interested agencies of our government working in conjunction with leaders in the petroleum industry to see if we cannot find a means of combatting this form of economic warfare.

I am addressing similar letters and sending copies of the study to the Secretaries of State, Defense, Commerce and Treasury, the Joint Chiefs; Gordon Gray and Jack Irwin.

Sincerely,

Arleigh

ARLEIGH BURKE

Honorable Allen Dulles
Director of Central Intelligence
Washington, D. C.

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DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON 25, D. C.

IN REPLY REFER TO

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19 November 1960

GROWING CRISIS IN THE DISTRIBUTION AND MARKETING OF PETROLEUM BY WESTERN NATIONS

The past year has seen the first clear cut signs of a deterioration of Western control of world oil supplies. As a result of the Cold War, growing nationalism, the discovery of new oilfields and mounting Soviet competition -- competition which cost considerations and Arab politics make very difficult to meet -- Western oil companies are faced with increasing problems in maintaining the flow of their products around the world.

During the last two years the USSR has more than doubled its oil exports, increasing them from 207,000 barrels per day in 1958 to about 450,000 barrels per day in 1960. Current trends in Soviet production and consumption indicate that this figure will again be doubled by 1965 when exports to non-Communist countries may reach 1 million barrels per day -- if markets can be found. On this basis it is probable that Soviet Bloc oil will comprise about 5% of the oil moving in international commerce. This will be done on the solid foundation of an approximate doubling of Soviet production between 1960 and 1965, rising from its present level of about 2.7 million barrels per day to between 5 and 5.5 million barrels per day in 1965. As significant as these figures are, however, they cloud the most dangerous aspect of the picture -- the concentration of these exports in a few countries.

Iceland, one of our NATO Allies, imports all of its POL requirements from the USSR. Finland imports two-thirds of its requirements from the Soviet Union; West Germany, 13 percent; Italy, 20 percent. Japan is moving toward increasing its reliance on Bloc oil and a trend in this direction may be developing in Brazil. India has recently signed agreements which will make it a large consumer of Bloc petroleum products. Last but not least is Cuba's complete dependence on Soviet sources of supply.

Virtually all of these inroads have been made by the use of inducements and agreements which Western oil companies cannot match. Barter is the most important of these. Soviet state trading monopolies and government planning make it possible for Moscow to agree to accept fish from Iceland in exchange for oil, thus guaranteeing that country a market for its fish and a stable price for the purchase of its oil requirements. No hard currency is required and many of the uncertainties of world markets and prices are eliminated. The UAR and Cuba have made the same type of arrangements with cotton and sugar respectively as their means of payment. Italy, West Germany, and France obtain markets for some of their machinery and steel exports. A new element has been added in India where the USSR has agreed to accept non-convertible Indian currency in payment. All of these agreements are calculated on a price basis lower than that offered by Western companies. The recent $200 million

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Italian contract with Moscow provides for the exchange of 240,000 tons of 40 inch steel pipe and 50,000 tons of synthetic rubber for approximately 84 million barrels of Soviet crude oil -- indicating a price of about $1.00 per barrel which is below the actual cost of production of Middle East operators. Cost considerations are clearly a secondary factor to political motivations when the USSR is trying to penetrate Western oil markets.

The problem, from the point of view of US national security interests, is not simply that the Western companies lose markets or that the US balance of payments suffers. The impact of Soviet activity in the next five years will still not be severe enough to provide an insurmountable threat to the operations of these companies, particularly in the areas of producing and refining. However, Soviet activity will present at least two grave problems. One stems from the leverage which the Soviets can exert to influence the price of oil in international markets by their "dumping" or price-cutting operations. Their offerings of up to 450,000 barrels per day of oil at ridiculously low prices can seriously depress the world price of 20,000,000 barrels per day of free world oil. A second problem is created by the picture of the leading Communist state bettering Western private enterprise in competitive markets. Nations which find their energy supplies closely tied to Soviet oilfields are almost certain to turn a more attentive ear toward Communist overtures lest their vital oil supply line be tampered with by the Kremlin. At the same time, the "unfair" practices used by the USSR to gain its foothold in Western markets will be quickly forgotten while the fact that Western private enterprise has suffered a setback at the hands of Soviet communism will stand in the eyes of much of the world as an example of the Soviet system winning out over the American system. Halting the development of such situations is clearly a matter of great importance to US national security.

In addition to the "unfair" competition which Western oil interests face from Moscow, there is growing momentum among various Arab leaders to implement plans which will give them a more active role in the marketing operations of the oil companies. With the aim of guaranteeing their countries a stable level of high income, proposals of nationalist leaders of Arab countries would, in effect, reduce the competitiveness of Western oil even further compared with Soviet products and take away much of the initiative in marketing now exercised by the companies by putting it into the hands of the government of the producing country. We are, therefore, likely to see a situation developing which will act as a restraint on the normal private-competitive structure of American and European petroleum enterprises at precisely the time when these concerns are about to face their greatest challenge from the Communist system.

The problem, although not unique in the oil industry is, however, here most acute. We may expect to see similar challenges made to the security of the Western

60-9279

December 1, 1960

Dear Arleigh:

I read with interest your letter of November 19 on Soviet oil sales to the Free World and its enclosed study.

At least two agencies are about to complete studies on this subject. The intelligence community is preparing a national intelligence estimate which contains a number of paragraphs on the Soviet challenge in the international oil market. NIE 30-60, "Middle East Oil," is now scheduled to be discussed by the USIB next Tuesday, December 6. The Department of State has been conducting a thorough study of the problem, with particular reference to what, if anything, might be done about it. I understand that this study will be completed shortly.

After these two studies have been completed, I believe we will be in a much better position to consider what further work or action may be desirable.

Sincerely,

(Signed) Gordon Gray

Gordon Gray
Special Assistant to the President

Admiral Arleigh Burke
Chief of Naval Operations

cc: The Secretary of State
Director of Central Intelligence